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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

JUL - 5 1995

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of)
)
Petition for Rulemaking to) RM-8640
Amend Part 32 of the Commission's)
Rules to Eliminate Detailed Property)
Records for Certain Support Assets)

COMMENTS OF
SOUTHWESTERN BELL TELEPHONE COMPANY

Southwestern Bell Telephone Company (SWBT), by its attorneys and pursuant to Public Notice,¹ respectfully submits its Comments in support of the United States Telephone Association's (USTA) Petition for Rulemaking to amend Part 32 of the FCC's Rules to eliminate detailed property records for certain support assets. In lieu of detailed property records, USTA proposes that the Commission permit local exchange carriers (LECs) to adopt a vintage amortization level (VAL) property record system, under which the net book value of existing assets in each affected account would be placed in a VAL group and amortized on a straight-line basis over the remaining life, based upon the FCC-approved range of lives. Especially in view of today's increasingly competitive environment and price cap regulation, USTA's proposal represents a more efficient regulatory approach to property recordkeeping. USTA's proposed VAL method would eliminate burdensome and unnecessary recordkeeping, which would allow LECs to adopt more cost-effective procedures for such support assets, and to improve their ability to compete with unregulated companies that are not required to incur the substantial cost of keeping detailed property records for such

¹ DA 95-1027, released May 10, 1995.

support assets. Because of growing competition and the relatively low dollar value of such support assets, the burden of detailed property records for such assets can no longer be justified by any tangible benefits to ratepayers. In any event, whatever remaining benefits exist under current price cap regulation can be accomplished through the use of the VAL recordkeeping system and this benefit will have a much smaller price tag.² For these reasons, SWBT supports the elimination of detailed property records for the support assets identified in USTA's Petition and their replacement with the less costly and more justifiable VAL property records system.

The Public Notice asks how USTA's proposal "provides for adequate internal controls to safeguard these assets." From SWBT's viewpoint -- faced with competitors who are not subject to such costly recordkeeping requirements -- neither the current continuing property records (CPR) nor the VAL records are appropriate mechanisms to safeguard these assets. The detailed property record, in and of itself, will not serve as the control against loss of an asset. Instead, each LEC's management is responsible for safeguarding its assets through internal controls and security procedures. In such a competitive environment, each LEC should be allowed to use the most cost-effective procedures for safeguarding

² The benefits of detailed property records under price cap regulation are especially tenuous -- if not nonexistent -- in view of the fact that most LECs have elected to be regulated under an X-factor option that requires no sharing. See Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1, First Report and Order at ¶ 200 (released April 7, 1995).

its assets. For example, building security systems and procedures protect against the unauthorized removal of assets from a LEC's buildings. Also, a LEC's budget and procurement procedures, combined with competitive pressure to reduce costs, provide adequate constraints on the purchase of new items. A property record system, such as the current CPR or USTA's proposed VAL, is not a well-suited means of safeguarding low value items such as these support assets because the LECs' internal procedures and accounting controls provide adequate assurance of the protection of such assets, without the necessity of regulatory intervention.

The Public Notice also asks "what records are necessary to ascertain the location, existence and costs of these assets." For support assets of this type, the objective of the recordkeeping system need not include ascertaining the location, existence or detailed cost of each item. Instead, the VAL recordkeeping system achieves the more suitable objective of accurate initial recording of costs, amortization of those costs in a systematic and rational manner, and the ease of removal of costs at the end of an asset's projected life. SWBT believes that the existing detailed CPR requirements cannot be justified from a cost/benefit perspective, especially for these support assets. The adoption of the VAL system strikes an appropriate balance as to the amount of recordkeeping which is reasonably necessary given the cost and proliferation of these support assets, especially in view of the changing competitive/regulatory landscape.

The proliferation of certain support assets makes it inefficient and cost-prohibitive to track the movement and disposition of these items on a real-time basis. Advances in technology have contributed to the increase in the quantity and variety of items that must be tracked. For example, splicing fiber optic cable requires a number of specialized tools; whereas copper cable is spliced by hand. Likewise, historically, a mini-computer was shared by an entire work group; whereas, now each employee requires his or her own personal computer and its peripherals. Continuing to keep detailed property records for these support items is like trying to keep track of pocket calculators. In fact, like personal computers, calculators were subject to CPR requirements at one time. Such recordkeeping is neither desirable nor cost justified. Besides, in the price cap environment, there is little or no payback.

The next area of inquiry in the Public Notice concerns accounting for retirement of these support assets. SWBT believes that retirements should be accounted for as proposed in USTA's Petition because that method assures that the support assets and their associated reserves are automatically removed, without the necessity of manual intervention, at the projected end of the life of the particular category of support asset. This mechanization of the retirement process is justified by the small dollar value of the individual support assets. The use of a life within the range approved by the FCC guarantees that retirements will be sufficiently accurate. This method of retirements will also assure

that the adoption of the VAL system will be virtually revenue neutral.

SWBT believes that in order to be fair in the application of similar rules to similarly situated companies, the FCC should adopt some measure of flexibility in recordkeeping requirements such as this, comparable to the flexibility allowed to its competitors, such as interexchange carriers and cable operators, as they begin to enter the local exchange market.³ For example, the accounting system applicable to cable operators allows much more flexibility in recordkeeping than Part 32.⁴

Implementing USTA's proposed property record system would eliminate unnecessary regulatory burdens and reduce administrative costs, without any harm to ratepayers. SWBT strongly believes that the intricate process of tracking and maintaining CPR for support assets of this type is not narrowly tailored to the task of safeguarding assets and the small benefit such process may arguably provide is far outweighed by the burden it imposes. In light of the rapidly changing competitive landscape and the unfairness of continuing to require such costly recordkeeping procedures not

³ Cf. Bell Atlantic Telephone Companies Revisions to Tariff F.C.C. No. 10 Rates, Terms and Regulations, Transmittal Nos. 741, 786, Statement of Commissioner Barrett at p. 2 (released June 9, 1995). ("[T]o the extent that this decision embodies a measure of flexibility for Bell Atlantic and potentially for other providers of video dialtone services, . . . I will be interested in the Commission's actions to provide substantial flexibility to cable operators as they seek to . . . compete in the local loop.")

⁴ See Implementation of Sections of the Cable Television Consumer Protection and Competition Act of 1992: Rate Regulation, 9 FCC Rcd 4527 Attachment C (1994).

required of LECs' similarly situated competitors, SWBT respectfully requests that USTA's Petition be granted expeditiously and a rulemaking commenced as soon as possible to adopt the VAL property record system by 1996.

Respectfully submitted,

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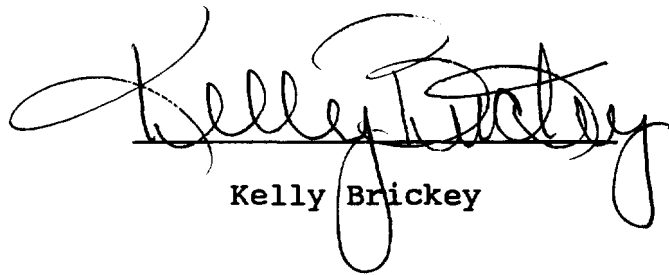
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July 5, 1995

CERTIFICATE OF SERVICE

I, Kelly Brickey, hereby certify that the foregoing "Comments of Southwestern Bell Telephone Company", have been served this 6th day of July, 1995 to the Parties of Record.


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July 6, 1995

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